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C O N F I D E N T I A L SECTION 01 OF 02 BAKU 000333

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DEPARTMENT FOR EUR/SNEC AND EB/ESC
USDOE FOR FE - SWIFT AND OS - WILLIAMSON

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TAGS: ENRG ECON EPET AJ KZ GG TR

SUBJECT: BP BUILDS PICTURE OF SPLIT GOAJ ON OIL TRANSPORT
AGREEMENT WITH KAZAKHSTAN

REF: BAKU 305

Classified By: Ambassador Reno L. Harnish, III, reasons 1.4 (b), (d) and (e).

¶1. (C) SUMMARY. In his February 28 meeting with Ambassador and the British Ambassador, BP Azerbaijan senior executive David Woodward reported that the South Caucasus gas pipeline project (SCP) is continuing on schedule and the Baku-Tbili-Ceyhan oil pipeline (BTC) should remain on schedule as well if a cost-overrun agreement is achieved with Turkish pipeline company BOTAS later this month. BTC has experienced its first hot-tap (in Turkey), but BP was pleased by the first successful prosecution of a hot-tap in Georgia. Woodward also discussed the recent labor unrest at the Baku maritime construction yards operated by BP's contractor McDermott and described his recent meeting with State Oil Fund chief Samir Sharifov, whom he characterized as Azerbaijan's leading strategic thinker on energy. Sharifov seems to be in favor of a version of the proposed Inter-Governmental Agreement for the transportation of Kazakhstan's oil through Azerbaijan that would designate BTC as the exclusive route. This is the complete opposite of the current text, backed by others in the GOAJ, such as Valekh Alasgarov, that would include but not be limited to BTC. END SUMMARY.

PROGRESS IN FIGHTING HOT-TAPS, BUT NOT IN SELLING GAS

¶2. (C) In BTC news, David Woodward said that the first lifting of BTC oil from Ceyhan still looks set for the end of May, again assuming that the USD 400 million claim of BOTAS is settled in March (reftel). BOTAS has given BP a deadline of March 20 to settle the claim. The next stage of line-fill begins on March 6, Woodward noted. In SCP matters, the TPG platform is set to be floated out to the Shah Deniz field in March and the project is on track to deliver gas by the third quarter of this year.

¶3. (C) BTC has experienced its first hot-tap, said Woodward. The hot-tap occurred in northeastern Turkey. On a related subject, BP was pleased to see the first successful

prosecution of a hot-tap case in Georgia -- previously, Woodward said, persons arrested in connection with hot-taps had been allowed to plea bargain and pay fines instead of serving jail sentences.

¶4. (C) On gas, Woodward reported that SOCAR continues to not respond to BP's project proposal to provide more ACG associated gas to Azerbaijan in exchange for drilling rights to the deep gas reservoir there (reftel). Woodward said that Georgian Prime Minister Noghaiadeli has requested a meeting in March with the Shah Deniz partners, presumably to discuss getting more Phase I gas for Georgia or to discuss accelerating Phase II.

LABOR TROUBLES AT McDERMOTT

¶5. (C) Woodward briefly commented on the recent "strike" at McDermott Caspian Construction Inc. (an American maritime construction company operating on contract to BP in Azerbaijan), which followed an incident when two expatriate managers removed grisly photographs of the Khojaly massacre from a company bulletin board. There was a brief strike by employees, with plenty of press coverage, which ended when McDermott's country manager apologized. The two managers were reassigned and have left Azerbaijan, one of them escorted to the airport by security forces.

¶6. (C) Woodward and many others feel the incident to have been orchestrated, as the news media seemed to know it was coming. Yet, he asked rhetorically, what is the motivation? Who would benefit from such an incident? One goal may be to

BAKU 00000333 002 OF 002

create a new union for the work force. There may be other, more nationalistic goals as well, said Woodward. There are three major construction yards in Baku -- Bosshelf, ATA and McDermott. McDermott is the only one that has non-Western, third-country nationals -- Indians, Pakistanis, Philippinos -- supervising locals. ATA uses primarily Turkish supervisors and Bosshelf uses locals in supervisory positions as much as possible.

SAMIR SHARIFOV: NO PROGRESS ON ECONOMIC MODELING...

¶7. (C) Woodward met recently with Samir Sharifov of the State Oil Fund. Woodward considers Sharifov to be the primary strategic thinker on energy in the GOAJ today, and President Aliyev's closest energy advisor. Sharifov, for example, will attend the next BTC Periodic Review Board meeting in Ankara. Woodward raised with Sharifov the issue of SOCAR's non-responsiveness on the proposed ACG associated gas project and other initiatives. Woodward also brought up the question of economic modeling. One year ago BP offered assistance in the creation of an economic modeling unit for oil revenue management, but the GOAJ has never given a final response (other than to say that any such unit would be housed in the State Oil Fund). Sharifov told Woodward that he is concerned that the Asian Development Bank may be working on a duplicative modeling project with the Ministry of Economic Development. Woodward said that BP's Oxford partners on this issue would soon travel to Azerbaijan and make sure that unnecessary duplication is not taking place.

...BUT WANTS KAZAKH OIL TRANSITING AZERBAIJAN ONLY IN BTC

¶8. (C) Sharifov told Woodward in the same meeting that he does not support the current draft of the Inter-Governmental Agreement for bringing Kazakhstan's oil to world markets through Azerbaijan. Sharifov says that he wants the IGA to specify that this oil will be transported only via BTC.

Ambassador noted that the influential Valekh Alasgarov, a deputy speaker of parliament and chair of the parliament's energy committee, has expressed exactly the opposite view -- that the IGA should permit the movement of Kazakhstan oil by any transportation system, including but not limited to BTC (reported septel). The current text of the IGA reflects Alasgarov's view. Woodward also said that Kazakhstan has expressed a willingness to sign the IGA during the first-lifting ceremonies at Ceyhan in June.

HARNISH